

U.S.–Mexico Relations:
Closing the Gap

Testimony of

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Chairman Burton, Ranking Member Engle, distinguished members of the Committee:

Thank you for inviting me to testify on this timely subject—the state of U.S.-Mexico relations. When record numbers of Mexicans are crossing our borders to obtain employment in the United States, along with other Latin Americans, it is important to have clear understanding of where relations with our close neighbor and third largest trade partner are taking us.

Many of us remember when Mexico had a closed economy and prickly relations with the United States. Yet over the last 20 years, these two nations have become cooperative partners thanks to Mexico's adoption of dramatic economic, electoral, and foreign policy reforms.

During this time, the North American Free Trade Agreement tripled U.S.-Mexico commerce. Vicente Fox became the first president elected from an opposition party in seven decades. Mexico increasingly became a valuable ally in international forums such as the Organization of American States and a willing ally in apprehending transnational criminals.

While the United States and Mexico seem far apart on headline-grabbing issues such as support for the U.S. liberation of Iraq and Mexico's desire to obtain migration privileges for its underemployed workforce, the two nations continue to improve relations on trade, border cooperation, and security.

As for the future, Mexican elections in July 2006 could lead to a modest expansion or a sharp narrowing of areas of collaboration, depending on the outcome and interest groups that manage to surround the new president.

In short, a trend toward greater cooperation will bring us together while certain political factors will pull us apart. It is important for U.S. leaders to understand this dynamic to maximize our strengths as partners and minimize our adversarial weaknesses. Our prime goal should be to encourage further reforms so Mexico can approach political, economic, and defensive parity with the United States and Canada, that we may work better together and reduce incentives for underemployed Mexicans to seek survival and advancement by crossing borders.

TRENDS FAVORING GREATER COOPERATION

Economic progress. During the 1980s as inflation soared to more than 2000 percent, Mexico began slowly opening its economy to foreign investment and trade. Ten years later, inflation was down and Mexican president Carlos Salinas was busy promoting the North American Free Trade Agreement which went into force in 1994. The devaluation of Mexico's currency in December 1994 threatened its fragile economic progress. Yet sound fiscal management allowed the economy to keep growing and Mexico to repay \$40 billion in loans more than 3 years ahead of schedule.

In 2001, Mexico suffered another downturn following the terrorist attacks on the United States. Temporarily losing export markets and tourism, its economy contracted nearly a percentage point and barely crept into the positive column the following year. But Mexico's economic strength returned in 2004. Speaking at The Heritage Foundation on March 23, 2006, Mexico's Secretary of Governance Carlos Abascal Carranza reported the following overall gains from

2000 to 2005:

- Mexico's annual inflation declined by two-thirds;
- The public deficit dropped to zero;
- Foreign investment grew 74 percent.
- Mexico's non-oil exports increased nearly 60 percent (over the last decade);
- Tourism is up 40 percent;
- Investment in roads and highways has grown 144 percent;
- Six million scholarships now help keep poor children in class through high school;
- The value of real wages rose 7 percent;
- Nearly 577,000 new jobs were created in 2005; and
- The number of Mexicans living under one poverty index dropped 23 percent.

Trade liberalization has been the mainstay of this resilience. Total U.S. trade with Mexico more than tripled in 10 years, from \$81.5 billion in 1993 to a high of \$267 billion in 2004.

Political reforms. Mexico's 1917 constitution established a federal governing system. Yet until recently, it hardly performed that way. For decades, the president from the ruling party controlled all branches and levels of government from the top to the bottom through patronage and favors. During the 1990s, electoral reforms and the rising strength of opposition parties laid the foundation for competitive elections and the emergence of Mexico's congress as a check on executive power. In July 2000, a modernized, professional Federal Electoral Institute conducted a model vote with paper ballots—the first truly honest national contest in seven decades.

Since then, Mexico's political progress has become somewhat a victim of its success. A congress divided by the three major parties (the Institutional Revolutionary Party-PRI, the National Action Party-PAN, and the Democratic Revolutionary Party-PRD) has blocked many of President Fox's suggested reforms, making him look ineffective compared to past strongman leaders. Yet to its credit, the congress has introduced its own measures and passed a few of Fox's initiatives. Between 2000 and 2004, some 30 institutional reforms became law, including a freedom of information law, the creation of a federal bureau of investigation, expanded indigenous rights, and the promotion of a more professional career civil service.

Bilateral projects.

A North American community as envisioned by some U.S. advocates of closer integration and President Vicente Fox is not likely in the near term. The NAFTA partnership is a long way from becoming the American equivalent of the European Union (EU). Nor should it try to be with the EU's emphasis on regulation over creativity. Nonetheless, NAFTA partners are moving closer day by day on common trade and security policies. These policies are more likely to enter into play when Mexico develops effective public institutions and embraces the rule of law. That is,

they will have meaning when the political and economic culture in Mexico coincides more closely with those of its partner countries.

NAFTA was not the beginning of such collaboration. U.S.-Mexico boundary commissions date back to 1889 while environmental conventions were established earlier in the 20th century. A U.S.-Mexico Binational Commission was established in 1981 as a forum for cabinet-level officials from both countries to address topics requiring high-level attention. NAFTA and negotiations surrounding it resulted in the Border Environment Cooperation Commission (BECC), the North American Development Bank focused on strengthening border infrastructure.

In March 2005, Presidents Fox and George Bush and Canadian Prime Minister Paul Martin gathered in Crawford, Texas to launch the Security and Prosperity Partnership for North America, a trilateral working group tasked to promote greater commercial activity while enhancing security for the region. So far, the group has produced a framework to enhance electronic commerce, guidelines for aviation safety, recommendations to streamline trade, new bilateral procedures to target and prosecute alien smugglers, a partnership to integrate automotive industries, and closer cooperation on confronting terror threats.

Security ties increasing. Cooperation on security has grown since 1977 when Mexico introduced Plan Condor, tasking the army with combating drug traffickers. President Salinas declared counternarcotics to be a national security priority and his successor Ernesto Zedillo cemented the army's position in fighting crop production, trafficking, and organized crime. President Fox promised to reform Mexico's poorly paid and corrupt police to do that job, but found such changes too difficult to move through congress and implement. Ultimately he turned to the military's special battalions and even named a senior army officer as Attorney General.

Mexico is still a major transit country for South American cocaine as well as a heroin and marijuana supplier. But the government's effectiveness in arresting the problem has grown. The current Fox Administration has apprehended members of the Arellano-Felix cartel, the Carillo Fuentes organization, and the Gulf cartel. Eradication, interdiction, and actions against money launderers have increased. Since the Zedillo Administration, at least, the United States has modestly aided these efforts by providing surplus equipment and training of which the Mexican government speaks little to avoid appearances of catering to Uncle Sam. On the other hand, some U.S. lawmakers criticize this cooperation as catering to a nation unworthy of American trust. Historical trends show such assessments on both sides to be invalid.

Mexico's armed forces are also beginning to step away from their traditional role of maintaining internal order and policing rural areas. Cooperation on transnational crime was a start. Increased interest in defense matters and oversight on the part of the congress helps. Mexican think tanks are beginning to ponder national security strategies. Moreover, President Fox has spoken often of a trilateral security zone protecting the three NAFTA partners. That can't exist until Mexico's military can train, exercise, and act in concert with U.S. and Canadian forces that have operated interactively for decades under the North American Defense Agreement and the North Atlantic Treaty Organization. However, Mexican units have begun to attend peace-keeping exercises with Canada and have received some training from the United States. Further

U.S. collaboration could be hobbled, however, by Mexico's accession to the International Criminal Court, triggering U.S. sanctions on security assistance.

Mexico's evolving international vision. In the past, Mexican governments manifested an inward vision. When they looked beyond their borders, it was usually toward Mexico's own neighborhood to support movements and regimes adversarial to the United States as a way of demonstrating independence. It endorsed the Sandinista takeover in Nicaragua as well as the Farabundo Martí Liberation Movement in El Salvador. Longstanding friendly ties with Cuba's Fidel Castro regime was the hallmark of Mexico's foreign relations.

That began to change in the 1990s, when Mexico became more supportive of Central America's new democracies. Foreign Secretary Rosario Green of the Zedillo Administration met with Cuban dissidents in 1999, dismissing Fidel Castro's claims that she was meddling in Cuba's internal affairs. Last year, Mexico even proposed its own candidate to lead the Organization of American States (OAS). In November, President Fox gained stature when he called on all pro-trade nations to endorse free trade principles in the final declaration at the Americas Summit in Buenos Aires. Venezuela was the only holdout.

Besides hosting a Special Summit of the Americas in 2004, Mexico has held a seat on the United Nations Security Council, is a founding member of the World Trade Organization, joined the Asia-Pacific Economic Cooperation group (APEC), and was recently elected to the International Atomic Energy Agency Board of Governors.

FACTORS THAT PULL US APART

Various features in Mexico's political and economic landscape still pose barriers to more beneficial ties. Among them:

Lingering political traditions. One of Mexico's foremost political scholars, Enrique Krauze, observed in the January edition of *Foreign Affairs* that in Mexico "there is no general agreement on the right way to create wealth, economic growth, or employment; on how to modernize the energy sector; on how to combat poverty and inequality; on how to approach and manage globalization." Old political ways based on favor trafficking and personal power do not permit such analysis and consensus.

Much of that old power structure still exists. Political parties don't yet represent members. Except for the PAN's recent presidential primaries, most candidates for general elections are selected by party leaders. Consensus-building is still a minor art in legislative bodies where agreements that cross party lines are seen as betrayals. Mexico's constitutional prohibition against re-election of parliamentarians limits legislative oversight. Just as a congressional deputy becomes an expert on how public institutions function, that person's term ends.

Monopolism and anti-competitiveness. Liberalization has yet to demolish obsolete features of the old economic order. Foreign investment is limited by law in Mexico's large telecommunications and energy sectors where state monopolies like Pemex, the state petroleum company are protected from competition and privatization. Company executives claim it loses

\$1 billion annually to internal corruption.¹ Some 20 percent of Mexico's workforce is in the agricultural sector (compared to 3 percent for the United States and Canada) although the number is declining. Half of Mexico's agricultural sector is throttled by an 80-year-old collectivized land-tenure system that promotes continued cultivation of small plots of 5 hectares or less while blocking agricultural investment.

Lacking full property rights and access to modern farm technology, nearly half of all Mexicans living in rural areas do not make enough to feed themselves and choose to abandon farming in order to survive. Meanwhile, Mexico's centralized education system does not reach the countryside where a quarter of the population lives. While some 88 percent of U.S. citizens complete high school, only 25 percent of Mexicans do so, according to a recent comparative study.²

Independent foreign policy. Despite warmer relations and burgeoning economic integration, Mexico's foreign policy cannot be expected to automatically align with the United States. Based on longstanding grudges and fears, Mexican public opinion probably will never favor U.S. interventions in other parts of the world. Understandably, President Fox could not support U.S. actions to liberate Iraq. Moreover, it is unlikely his successor could do so without losing essential political capital to advance controversial reforms. Mexico's relations with Fidel Castro may also wax and wane independent of U.S. inputs. The recent case of U.S. sanctions against an American hotel chain operating a property in Mexico where Cuban diplomats attended a conference, shows that Washington sometimes acts without considering host country laws or repercussions.

Unrealistic expectations. In September 2001, President Fox was probably correct in declaring the 1947 Inter-American Treaty of Reciprocal Assistance outdated. His timing was ill-advised, coming on the heels of the terrorist attacks on the United States. Moreover, the Fox Administration sees North American integration as patterned after the European Union model with common regulatory environments and aid flows from the richest to poorest nations. However, that view clashes with U.S. and Canadian cultures that value security as the product of creativity and competitiveness, not as a first priority.

Although it has always been a concern of local U.S. officials, Mexican migration became a major bilateral issue shortly after 9/11 when Mexican Foreign Secretary Jorge Casteñeda persuaded President Fox to make it part of his integration vision. As part of its "European Union-think," the Fox administration persistently suggested that U.S. had an obligation to absorb Mexico's poor and unemployed similar to the way EU nations took on some of the burdens of new members.

¹ Petroleos Mexicanos (Pemex) was created in 1938 when foreign oil operations were nationalized and then constitutionally protected as national patrimony by the ruling Institutional Revolutionary Party (PRI). Today, the PRI continues to block congressional attempts to privatize it. In 2001, Pemex took in \$46.5 billion, paid \$28.8 billion in taxes supporting nearly half the federal budget, and posted a loss of \$3.5 billion. See Tim Weiner, "Corruption and Waste Bleed Mexico's Oil Lifeline," *The New York Times*, January 21, 2003, p. 1.

² Table A1.2, *Education at a Glance, OECD Indicators*, Organisation for Economic Co-operation and Development, Paris, 2003, p. 41.

Obviously, current demographic trends are not in Mexico's favor. Nearly a million youths enter the Mexican labor force each year. Not all youths are educated enough to take jobs now available, plus half million new jobs per year are simply not enough. Mexico's minimum wage is US\$4.50 per day, far below the minimum US\$5.15 per hour stateside.

A more acute situation exists beyond Mexico's borders, throughout Latin America. In South America's Andean ridge—from Venezuela to Bolivia—the poor constitute more than half of the population. Except in Colombia, a developing trend is to consolidate power within plenipotentiary presidencies, ignore the rule of law, over-regulate small business, and let the state to set prices and salaries—a recipe for job loss. Most countries' gross domestic products barely approach those of mid-sized U.S. cities. Realistically, no migration deal with the United States will change that situation. Only political and economic freedoms will balance that equation.

Election Wild Card. Finally, the outcome of July 2006 election could determine whether Mexico continues to strengthen ties with its North American neighbors, pulls back into its shell, or even seeks an alliance with populist neighbors like Venezuela. Because Mexico is bigger than any one candidate for president and its democratic progress has already crossed party lines from the once-dominant center-left Institutional Revolutionary Party to the conservative National Action Party, a radical shift in policies is remote. However, the possibility should not be discounted either.

Mexico's next president may shape foreign policy, introduce budgets, and promote or slow reforms, but will most likely will face another obstructionist congress divided among the three major parties, the PRI, the PAN, and the PRD. Unlike the past, when the congress served as a rubber stamp to approve budgets that powerful chief executives provided, parliamentarians and commissions can block presidential initiatives as well as introduce and pass their own legislation.

Among presidential candidates, Roberto Madrazo of the PRI has a general platform that favors general law enforcement reforms, renewed emphasis on public works, and industrial competitiveness. His past history as an old-school political operator suggests he may attempt to roll back recent changes that ended his party's monopoly in national politics.

Felipe Calderón of the PAN says he will forge ahead on free-market reforms where President Fox had been unsuccessful. His party has published an extensive 56-page platform featuring specific institutional, market-oriented, and security-related proposals. However, Calderón will face the same challenge that Fox did—conquering a divided congress. Although the PAN probably has the most sensible ideas, Calderón must prove a better salesman and negotiator than his predecessor.

Former Mexico City mayor Andrés Manuel López Obrador of the PRD claims he would continue Mexico's current integrationist trajectory, although he reportedly has hard-left Chavistas in his political base. On one hand, his campaign literature emphasizes fiscal conservatism: simplifying Mexico's tax code, reducing public debt, and promoting micro-credit opportunities to trigger small business start-ups. Instead of exporting Mexico's unemployed to the United States, enterprise zones in southern Mexico would soak up underutilized labor. He claims he would promote further decentralization of the government to obtain greater federalism.

On the other hand, López Obrador is a former member of the favor-dispensing PRI and tends to view the Mexican business community with disdain. He must go farther than rival Felipe Calderón to show his willingness to dicker with opponents to produce compromises.

WHAT THE UNITED STATES SHOULD DO

Mexico's prosperity and progress in making its government more accountable and its economy more open to competition among its citizens is of prime importance to the United States. Secure, stable, and friendly neighbors are essential to guaranteeing the security of U.S. citizens. In its own interest, the United States should challenge roadblocks and trends away from the path of liberalization and integration that Mexico has chosen for itself.

U.S. Congressman can encourage their Mexican counterparts:

- To improve citizen oversight of government at all levels by establishing primaries to allow any citizen to run for office, by tying legislative representatives to districts, and devolving more authority to state and local jurisdictions.
- To phase out inefficient monopolies to enable reinvestment, renovation, and private ventures in Mexico's energy and telecommunications sectors.
- Implement their own reforms to enable broader access to credit for small Mexican businesses to complement existing reforms to streamline licensing and enable access to loans at rates similar to U.S. and Canadian markets.
- Improve primary and secondary schooling particularly in rural areas to enhance employment prospects for workers leaving Mexico's outdated agricultural sector. A restructured North American Development Bank could provide financing, while stronger local control over schools could improve accountability and loosen the grip of national unions over the education system.

The Bush Administration should continue to promote closer cooperation between Mexican and U.S. military and law enforcement agencies by:

- Inviting Mexico to participate in combined North American military exercises the way Canada and the United States participate in each other's defense maneuvers;
- Expand exchanges for Mexican law enforcement, immigration, and justice system personnel through existing U.S. public diplomacy and Agency for international Development programs;
- Expand training for Mexican armed forces and law enforcement agencies beyond counternarcotics to promote common standards and competencies; and

- Offer judicial system training to promote compatible standards and competencies in the rule of law, backing up gains in law enforcement and improving Mexico's investment climate.

No matter who prevails the July 2 presidential contest, both the White House and the U.S. Congress should be prepared to work with the winner. Mexico's bid is not a take-it-or-leave-it proposition. As our third largest trading partner and close neighbor, Mexico's success is important to our own. Americans should appreciate Mexico's reforms to date and welcome its willingness to partner in deeper commercial and security ties.